

The Underserved Insurance Market

Presented to the
Canadian Council of Insurance Regulators

September 14, 2012

CONFIDENTIAL
Presentation is incomplete without oral commentary.



Canadian Association of Financial Institutions in Insurance (CAFII)

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About CAFII

- Established in 1997 as an insurance association for financial institutions involved in selling insurance via customer contact centres, agents & brokers, branches of FIs, travel agents, direct mail & Internet
- Its members offer a variety of insurance products, such as creditor's group, life, travel, health, property & casualty



Canadian Association of Financial Institutions in Insurance (CAFII)

Today's Presenters

Cathy Honor	Board Chair	RBC Insurance
David Minor	Past Board Chair	TD Insurance
Jennifer Hines	EOC Chair	RBC Insurance
Maira Gill	Past EOC Chair	TD Insurance



The Underserved Life Insurance Market

Agenda

- Challenges for low & middle income Canadians
- Traditional channels & the underserved market
- Alternate distribution channels:
 - Description & advantages of channel & typical products offered
- How gaps can be addressed



Challenges for low & middle income households

- Many mass-market households face insurance gaps & are at risk
- They have insufficient or no life insurance
- Gaps exist in traditional Broker channels that prevent them from adequately meeting the needs of mass-market clients
- Low to mid-income, younger 'mass market consumers' are underserved



Many households have insufficient insurance

A significant gap exists

Life insurance coverage recommended

- Replace income for 7 -10 years
- On average at least \$430,000 of insurance is required to replace 7 years of income

(Based on a \$60,900 average after-tax income for a family with children & one wage earner. Statistics Canada. Average income after tax by economic family types, 2005-2009)

Average amount of life insurance held

- \$173,700 - only 40% of the recommended protection!
- 44% of life insurance owned is Employer Group coverage
- Average coverage \$42,700
- Coverage at risk in the event of job loss

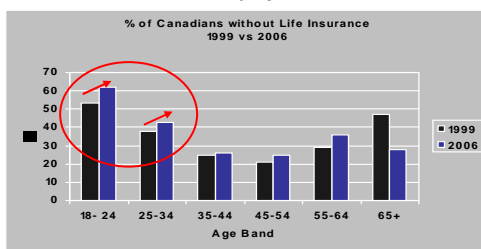
CLHA, Canadian Life & Health Insurance Facts, 2011

Many households are at risk if the wage earner died



More than one third of adults in Canada have no life insurance coverage at all

*Younger Canadians
have less coverage
% by age*



*Less insurance is held
at lower incomes*

% by income

Income	% without Individual or Group Life Insurance
< \$25,000	56%
\$25,000-49,000	23%
\$50,000-74,999	12%
> \$100,000	4%

LIMRA TOPIC 2009 - Financial Products, P.11

Lower income, younger households are at greatest risk

LIMRA 2007 Canadian Life Insurance Ownership Person Trends, p. 8



Canadians worry over risks due to insurance gaps

- 58% could not provide for their family if they died unexpectedly
- 48% would have concerns if they lost their job
- 75% worry they would not have enough money if they became critically ill or disabled

LIMRA TOPIC Studies - various (Retzioff)

38% or 5MM households feel they are underinsured

LIMRA Canadian Ownership Study - Household trends, 2007, p. 6 & 27

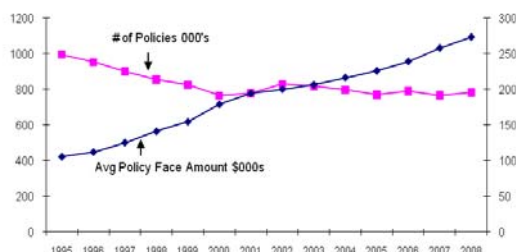


Many households are not being well served by traditional insurance sales channels

Households find purchasing life insurance a challenge

- 58%+ Don't know how much or what type to buy
- 58% Dread high pressure sales tactics
- 36% No one has approached them.
- 48% Find it very difficult to find an advisor/agent

LIMRA Canadian Life Insurance Ownership 2007 Household Trends, P. 28
LIMRA 2011 Trends in Canada Factbook (Ahmed)



Individual policy sales have decreased
Brokers are selling fewer policies, with higher face amounts

LIMRA Canadian Life Insurance Ownership 2007 Person Trends, P. 9-10

Alternatives are needed



Many households are not being well served by traditional insurance sales channels

Compensation Structure Drives Broker Behaviour

Compensation programs that pay commissions based on a % of premium incent brokers to target older clients needing higher value, higher premium policies

Female Non-smoking Client	Life Insurance Policy Type	\$100,000 Life Policy		\$500,000 Life Policy	
		Annual Premium	Base First Year Commission (FYC) \$	Annual Premium	Base First Year Commission (FYC) \$
Age 35	Term 10	\$ 134.50	\$ 53.80	\$ 221.00	\$ 88.40
	Term 20	\$ 155.00	\$ 69.75	\$ 314.50	\$ 141.53
Age 55	Term 10	\$ 332.10	\$ 132.84	\$ 941.00	\$ 376.40
	Term 20	\$ 577.80	\$ 260.01	\$ 2,190.00	\$ 985.50

Commission Rate Assumptions: T10 Base FYC = 40%; T20 Base FYC = 45%

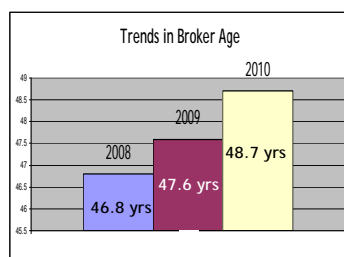
source: RBC Insurance Illustration 31/08/55

Seven \$100,000 Term 10 policies must be sold to 35 yr olds to earn the commission paid on one \$500,000 Term 10 policy for a 55 yr old



Many households are not being well served by traditional insurance sales channels

*Advisors are aging & few new recruits are entering the business
Only 70,000 life insurance advisors serving 30 million Canadians*



Insurance Advisor Profile (2011)

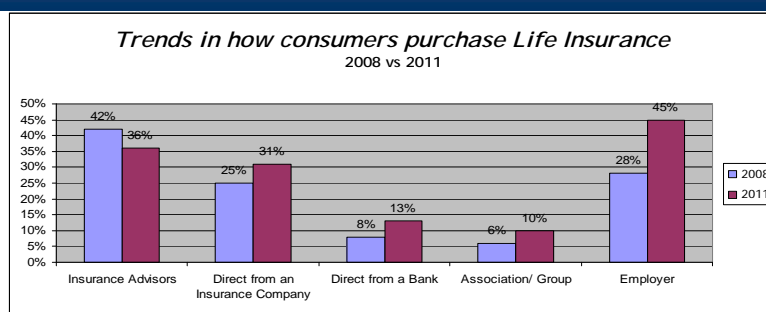
- Average age 48.7 years
- 17 years in industry
- Manage a relatively stable base of ~ 446 client households
- New advisors experience high turnover with 4 year retention rate of only 31%

Investment Executive Research 2011 Insurance Advisor Report Card
LIMRA annual survey of Canadian Sales Force Retention (April 6, 2011).

Advisors are more likely to develop their existing block of business & target new clients within their peer group



Consumer purchase behaviours are changing



↓ Insurance Advisors

↑ Alternative Channels including:
Banks/Ins Companies, Associations & Employers

*Insurance Advisor Share of Market is decreasing
as consumers are using Alternative Channels*



Consumer demand for Alternate Distribution Channels is increasing

Channels they are choosing

- Financial Institution & Bank Branches
- Contact Centres/ Direct Marketing
- Online/e-commerce

Clients often use multiple channels during the purchase process



Alternate Distribution: Financial Institution & Bank Branches

Over 8,000 Financial Institution (FI) branches offer authorized products to clients

- Product offerings are timely & fulfill a clearly defined need
 - Creditor insurance when there is new debt
 - Travel insurance when they are getting ready for a trip
- Face to face channel with representatives who are properly trained & supervised
- Convenient availability in most communities
- Well established channel from which consumers are comfortable seeking financial advice

Well positioned for Underserved Mass Market Clients

Ipsos Reid research study: RBC Insurance May 2008



Alternate Distribution: Contact Centres

Convenient, easy to access, well established channel

- Often available during extended hours
- Comfortable customer experience
- Insurance offer is timely & matches a need
 - e.g. travel insurance when a trip is being planned
- Adherence to associations' guidelines (i.e., CLHIA Guideline 7 & 9)
- Consistent, scripted communication
- Continuous supervision of representatives
- Supported by mail / internet fulfillment

*Provides convenient advice & products to consumers
wherever they are located*



Alternate Distribution : Online /e-commerce

Emerging / growing channel especially to research product information & advice

- Has been primarily used by consumers for information & research
- Is now beginning to emerge as a direct sales channel
- Available 24/7 for immediate information or coverage
- Chosen for ease & convenience to research & comparison shop
- Avoids pressure sales
- Information can be presented in a clear, logical order
- Advice can be made available from online tools
 - e.g. needs analysis, scenarios,, pop-ups, contact information & "click to chat"
- Cancellation period with full refund on all offerings, typically 30 days
- Broad based use amongst mass market & younger consumers

*Facilitates enhanced financial literacy &
increases access to insurance*



Advantages of Alternate Distribution

Provides convenience & easy access to information throughout the product lifecycle

- Convenient & wide availability
- Allow consumers access to a variety of products
 - E.g. Basic term, Disability, Critical Illness, Creditor & Travel insurance
- Well-trained & supervised salaried sales people
- Simple, affordable products

Can make insurance more easily available to underserved Canadians



Summary

- Mass Market, younger, lower & mid-income families, are underserved:
 - They face significant insurance gaps
 - They need & want basic advice & simple products
- Traditional Brokers do not focus on the Underserved Mass Market
 - Brokers are aging & fewer are coming into the business
 - They target & develop relationships with Mass Affluent & High-net worth clients
- Consumers are demanding alternative means for obtaining advice & coverage
 - Alternate channels meet customer needs for access, convenience & simplicity

It is critical to ensure that regulatory regimes help to foster & support the ongoing growth & development of these channels



Questions & Answers

Thank you

